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OFFICE OF REPORTS AND ESTIMATES, CIA
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INTELLIGENCE HIGHLIGHTS -- WEEK OF 23 MARCH - 29 MARCH 1948

GENERAL

Soviet-Philippine Trade Proposals (see FE/P Weekly, 17 - 23 Feb)

Additional information concerning the trade offers made to Philippine officials by the Soviet Trade representative in Japan has recently been received from the US Embassy, Manila. The offers (on paper, plywood, window glass, talc, and crabmeat) were on a C.I.F. Manila basis and subject to approval of samples to be sent from the USSR.

Although some specifications were furnished by the Soviets it is not possible to make exact comparisons with prices of similar US products. Generally, however, the Soviet offers appear to be competitive even after the Philippine tariff is applied. For example, Soviet prices for newsprint, which is difficult to obtain in the US except on contract, is considerably above US list prices but below the "gray market" price. Printing paper was quoted much below US prices, but offers of kraft paper and sulphite pulp, with the Philippine tariff added, would be slightly above US prices. Birch plywood was offered at well below US prices even in the face of a 40 per cent tariff. The prices on window glass, on the other hand, were roughly equal to what US suppliers could offer and could not compete against the 25 per cent tariff advantage. Some action on these proposals may be revealed in terms of in-bound and out-bound cargo on the Soviet ships now scheduled to visit Manila.

USSR-Philippines cement transactions (see FE/P Weekly 16 - 22 March)

The US Military Attache, Manila has reported that the first of seven Soviet ships to carry 50,000 tons of Manchurian cement from Vladivostok is due in Manila about 5 April. The MA has also transmitted additional details of the transaction. The sale of the cement to the Philippine Government owned National Development Corporation was made by an American businessman in Manila who represented other American interests in Shanghai. The purchase was arranged through a Yah Foong Trading Co. (Incorporated in Delaware) whose manager is a white Russian member of the Los Angeles Chamber of Commerce and the Shanghai American Club. The shipping agent is expected to be a representative of the American Security Co., which is apparently a Shanghai firm and whose manager is an Augustinian priest.

Document No. 001
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Class. CHANGED TO: TS S C
DDA Memo, 4 Apr 77
Auth: DDA REG. 77/1763
Date: 21 FEB 1978 By: 011

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JAPAN

Japanese Government gains strength in Upper House. According to a Kyodo 25 March release, twenty-eight members of the Ryokufu-Kai (Green Breeze Society), the largest group in the House of Councillors, announced their secession in order to form a "Democratic Reformation Club." The new organization will take a pro-Government attitude. The Ryokufu-Kai, claiming a membership of 89, is a group of conservative upper-house independents who have organized for bargaining purposes. Generally they favor the opposition Democratic-Liberal Party in their outlook. This secession has reduced the Ryokufu-Kai's strength to 61. Should the Democratic Reformation Club merge with the Democrats, the latter would become the largest party in the Upper House with 74 seats.

The formation of a "Democratic Reformation Club" indicates: 1) the continued fluidity of Japanese political groups; 2) the success of the Democrats' campaign to win support in the Upper House; and 3) that the Ashida coalition Cabinet now has the allegiance of 119 out of 250 votes in the House of Councillors without the balance of the votes being united into a solid Opposition. A Point of significance is that the new Club is the first gain by Ashida in the political field after a series of defections to and gains by the Opposition. Despite this gain, however, the position of the Ashida coalition government remains precarious and previous estimates that this Cabinet will last only a few months remain unchanged.

Economic outlook reported brighter. Dr. Shigeto TSURU, Deputy Director-General of the Economic Stabilization Board has made the following observations concerning the status of the Japanese economy to representatives of the US Department of State and USPOLAD: The economic outlook is brighter; the turning point came in December 1947. Dr. TSURU cited as signs of improvement the following: 1) Black market prices did not skyrocket during the political vacuum which existed in the interval between the fall of the Katayama Cabinet on 9 February 1948 and the formation of the Ashida Cabinet on 9 March 1948. 2) Staple food distribution has improved in large measure as a result of the regularity of the receipt of imports from the US in contrast to previous peak shipments in the few summer months just preceding Japanese harvesting. 3) The 1947-48 rice collection program has been successfully completed. 4) Tax collection has improved. A progressive increase was maintained in January and February 1948. During February the collection averaged a billion yen a day. (However, collections especially from the self-assessment tax groups are still in need of drastic improvement.) 5) The note issue has contracted (to the extent of over one billion yen in January and over two and one-half billion in February.) 6) Production of coal, which started to improve in November 1947, continues to improve.

Future production level may be higher than previously thought. William H. Draper, Under-Secretary of the Army is reported to have made the statement that the proposal to return Japan to the 1934 (sic) production levels referred only to the basis for reparations removals and not to the production levels to which the Japanese would be permitted to extend their economy. According to this report, after reparations removals have been completed, the Japanese

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will be permitted to raise their production level to whatever point they may seek.

These reported views refer to the NSC policy decision of 23 January 1947 concerning the peaceful needs of Japan. That determination was "that the peaceful needs of the Japanese people should be defined as being substantially the standard of living prevailing in Japan during the period of 1930-1934. Data about the standard of living during 1930-1934 should for present purposes be used to make an estimate of Japan's peaceful needs in 1950. In estimating the nature and size of the industrial structure within that level, account should be taken of such factors as technological developments, the balance of payments and employment. Acceptance of the above policy should not be interpreted to mean acceptance in advance of a specific level for any particular industry."

The foregoing statement marks a significant reversal of the previous general understanding that the NSC policy determination established a ceiling for Japanese industrial expansion. This interpretation is said to be part of the Army's policy to make Japan self-supporting by 1952 or 1953.

Draper also said that if the Army's proposed plan for Japan (Operation Crank-up) passes Congress, the maximum the Japanese could expect in any one year would be $580,000,000. In addition, $210,000,000 in proposed cotton credits and private loans are under discussion.

KOREA

Elections postponed. The UN-supervised elections, originally scheduled for 9 May, have been postponed at least until 20 May. On 9 May there will be an eclipse, regarded by the generally superstitious Koreans as an ill omen. The new election date is apparently more propitious and is not a Sunday, thus obviating the objection raised by some Christian groups against the 9 May date. In addition, postponement of the elections will allow the UN Commission more time for preparations.

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CHINA

Political

The National Assembly opened on 29 March as scheduled, with a speech by Chiang Kai-shek in which he urged suppression of the Communists and implementation of the Constitution. 1,639 of the total 3,045 delegates were present -- a number sufficient for convocation, but still 391 short of the two-thirds official quorum. Preparatory sessions will be held for two days pending completion of a quorum.

The dispute over the distribution of National Assembly seats was settled when the Generalissimo intervened. He issued an order that the Kuomintang candidates elected without party backing would have to give up their seats in favor of candidates of the two minority parties. Ten of these Kuomintang irregulars attempted a hunger strike as protest against the decision but were removed from the Assembly auditorium.

Sun Fo and Yu Yu-jen have officially announced their candidacies for vice-president; thus their names are added to those of Li Tsung-jen and Cheng Chien. The postponement of the Kuomintang Central Executive Committee meeting beyond the opening of the National Assembly may indicate that the fight for the position will be conducted in the National Assembly without official Kuomintang backing of any one candidate, but presumably Chiang's favor will determine the man elected.

Chiang Kai-shek, speaking at the final session of the People's Political Council, which ended ten years' existance on 28 March, said he made his worst blunder when he tolerated the Communists during the civil war. He expressed optimism, however, by the opinion that despite appearances he felt that the situation inside and outside China was more favorable than in 1938. However, Chang Po-ling, Chairman of the last PPC meeting, warned Chiang that morale of the Chinese people was lower than it was ten years ago. In concluding, the PPC gave its unanimous support to Chiang for president.

The labor situation situation in Shanghai is tense following a large number of arrests of workers made as the result of the uncovering of a Communist plot to "create widespread disturbances and destruction among the city's important buildings and utility plants" in the city in the next couple of months. The Consulate General expresses the opinion that while some of the workers were undoubtedly Communists much of the difficulty arises within the Kuomintang with one faction opposing the rigid labor controls of the CC Clique.

The Chinese Government spokesman had no comment when asked by newsmen for reaction to the Senate Foreign Relations Committee's recent criticism of the Kuomintang and the subsequent withdrawal of these statements by Committee Chairman Vandenberg. Unidentified Government leaders are reported to have displayed great bitterness over this latest attack from Washington, stressing it was particularly regrettable since it coincided with the opening of China's first National Assembly. One official contends that the effectiveness of the American loan tends to be minimized by the insistence that aid is being given begrudgingly and with little hope of doing good.

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North China Daily News, influential Shanghai British paper (which sometimes reflects British official views), editorializing on Foreign Minister Wang Shih-chieh's recent speech before the PPC in which he reportedly said "that China's relations with the USSR in the coming year will have to be handled with utmost care, otherwise a hazardous course might follow", stated that on face value the speech would mean China is not really concerned about stoppage of Communism anywhere except inside her own borders. Referring to the Foreign Minister's statement that China was receiving only secondary consideration by the US, the newspaper commented that "it should not be forgotten that China had put herself in the position of asking one friendly nation (US) to help her in warding off attentions of another friendly nation (USSR) with whom she has contracted a Pact of Amity." The paper added that the Foreign Minister's surprise at PPC criticism of the Sino-Soviet pact is echoed by many in China and outside; further that foreigners are surprised that the pact was approved by the PPC in secret session before it was signed, with little or no discussion.

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[redacted] the USSR plans a move soon aimed at controlling Sinkiang, adding that the Soviets must create the impetus in that territory in contrast to Manchuria where the Communists are gaining steadily. Of late there has been evidence of increased USSR activities in and around Sinkiang.

Economic

Exchange/Prices. Adverse military developments continued to be a prime factor in the Shanghai market during the past week. Foreign exchange rates and commodity prices soared to new highs, then subsided after some military reports proved exaggerated. Rice hit a high of CN $4.5 million a picul, then dropped to CN $3.75 million. The US dollar blackmarket exchange rate reacted similarly, dropping to CN $460,000 on 26 March. Rice rationing is reported having a stabilizing influence on other food prices; unrationed rice rose much less the past week when compared with cotton yarn and cloth.

The Shanghai Market:		US $ Exchange (Selling Rate) Official "open"	Blackmarket	Wholesale Price of Rice per 172 lb picul
This week	(26 Mar 48)	CN $258,500	460,000	CN $3,750,000
Week ago	(19 Mar 48)	258,500	525,000	3,450,000
Month ago	(26 Feb 48)	151,000	305,000	3,050,000
Year ago	(26 Mar 47)	12,000	12,000	110,000

Anti-inflation Measures. An unconfirmed report states that the State Council has authorized the Central Bank of China to issue short-term treasury notes carrying 5% monthly interest as a means of absorbing idle capital. In addition this report states that the Council approved measures for issuing stock shares on government-owned assets at an estimated amount of US $400,000,000 to back currency.

US Dollar Balances. A confidential (unofficial) report to the State Department shows China's net dollar assets at US $176 million on 31 December 1947, while officially reported short term balances were given at US $137.8 million

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for the same date. Both figures exclude surplus property account with US Treasury, and gold in Shanghai, but include Central Bank's gold in the US. Difference is believed chiefly Bank of China's dollar securities and Central Bank's vault cash. Preliminary figures for 31 January 1948 indicate assets had declined by US $18 million.

Foreign Trade. The National Government has announced an agreement with Portuguese Macao whereby exports of antimony, bristles, cotton yarn, tea, tin, wolfram and vegetable oils will be permitted only upon evidence that the foreign exchange, relative to such exports from China, has been sold to the Central Bank. This step was taken in an effort to stop the large-scale smuggling activity between China and Macao.

Military.

There was not much military activity in Manchuria during the past week, and the main Communist forces are deployed between Mukden and Changchun. The expected Communist attack on the latter city has not yet developed, while US Consul General Mukden is "inclined to concur" in local observers' opinion that the Communists will not attack the Mukden area before the end of April at the earliest. The Communists, in addition to resting, regrouping and resupplying their troops, are rushing repair work on their rear area rail net, especially east of Ssupingkai. Press reports that the Nationalists are pushing north from Chinchou and that a truck convoy has reached Mukden over the recently opened highway are both termed false by US observers.

Late press despatches indicate that in North China, Communist units may either have broken off their attacks on the Pingsui railroad or shifted to another sector. During the attack the Communists occupied a number of stations, caused extensive destruction of the railway (especially between Kalgan and Tatung), and forced Fu Tso-yi to redispose his forces to meet this new threat in his rear. In addition Yuhsien, Huaijen, Tsoyun, and Yuyu on the Tatung defense periphery were occupied, and Tatung itself was brought under artillery fire. The Communist radio claimed the capture of most of the Poshan coal mining area east of Tsinan in Shantung. Communist raiders again cut the Tsinpu rail line south of the city. The commander of the Nationalist military in Tsinan stated that he would not guarantee the city for more than two months.

In Central China, the Nationalists have reoccupied Loyang while Communist forces are now reported to hold practically all of the small river ports on the Yangtze River from Nantung to the river's mouth. As fighting was reported across the river from the Kiangyin naval base, the Chinese Navy patrols were called upon to prevent Communist crossings in view of the absence of sufficient ground forces in the area.

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SIAM

Military penetration of civil government. The recent appointment of Colonel Phao, a member of the hot-head element in the November 1947 coup group, as Deputy Director-General of the Police Department is an additional indication of Marshal Phibul's tactics for penetration of the Khuang Government. A hint of this move occurred last month when Colonel Phao embarrassed the military by personally demanding this appointment from the Interior Minister. Because of its poor timing relative to the important issues of foreign recognition and military interference in the government, this incident was played down; the arousing of foreign suspicions at that time as to Phibul's true intentions was considered detrimental to Siam's interests. Since the military was excluded from significant posts in the recently formed cabinet, it is believed that in view of the present quiet political situation Khuang has considered it feasible to agree to Colonel Phao's appointment as a minor appeasement of military pressure.

BURMA

Political situation approaching crisis. The Burmese Government has lost much public support since mid-March because of its arbitrary regulation of the press and its inability or disinclination to deal effectively with dissident political elements. (See Branch Weekly of 15 March). The Communists supported by the Peoples Volunteer Organization (PVO) have taken the initiative in embarrassing the Government, and now constitutes the major threat to the Government.

There appears to be three possible outcomes of the present situation, all of which will probably involve bloodshed. First, and most likely, the Government will attempt to establish a dictatorship. Prime Minister Thakin Nu, on 28 March, apparently reversing his previous policy of appeasement, announced that the Communists are to be ruthlessly suppressed. Simultaneously, Communists and their sympathizers were arrested in widely separated areas of Burma. Such firm measures may be effective in maintaining law and order, but it appears to be too late, and the Communists are almost certain to resist force with force. It is questionable if the Government's forces are capable of suppressing a full-dressed Communist-PVO insurrection. Second, a coalition government including Communists and PVO's might be formed at the expense of the Socialists. This would mean lowering the intellectual quality of the Government and resistance on the part of the Socialists who now control the Police and the Army. Third, the Government could allow the situation to deteriorate until chaos ruled Burma.

Intra-Burman strife is likely to cause the Karen problem to become acute again as well as raise other minority difficulties. Economic recovery will be retarded and the chances of Communist domination will be increased in direct proportion to the seriousness of consequent developments.

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PHILIPPINES

Secretary of the Interior by-passed in implementation of law and order declaration. Secretary of the Interior Jose C. Zulueta was conspicuously by-passed by President Roxas on 19 March in the implementation of the declaration outlawing the dissident Hukbalahap and the National Peasants Union(PKM). Zulueta, who is technically responsible for the direction of the Constabulary, had earlier been ordered by Roxas to advise law enforcing agencies of the action to be taken. Apparently Zulueta injected his own interpretation of the declaration by issuing a circular which stated that Huk-PKM members who signified their intention to abandon the organizations would not be prosecuted. On 19 March, however, Roxas by-passed Zulueta by informing the Philippine Constabulary and the Manila Mayor that the "declaration stands as issued; act accordingly."

Zulueta's party loyalty has been questioned for some months by Liberal Party leaders and more recently his political affiliations have been reported a source of worry to the Roxas administration. During the past month a Manila news weekly noted that presidential candidate Jose P. Laurel had suggested Zulueta as a running mate.

Defense Secretary claims 300,000 men available for emergency. Secretary of National Defense Ruperto Kangleon is reported to have stated on 28 March that the Philippines can mobilize at least 300,000 soldiers in event of a war emergency and that Filipinos will be ready to take up arms side by side with the US. While the present Philippine army is estimated at about 17,000 men and the Constabulary (a reserve component) has an authorized strength of 12,000, reserves are reported to number from 300-400,000. Secretary Kangleon indicated, however, that he did not believe war would come to the Philippines; that the USSR had no invasion fleet and no air bases capable of supporting an invasion. The National Defense Secretary pointed out that the danger was more likely to come from within the Philippines but that the Philippine army believed itself capable of coping with dissident groups.

While the House Appropriations Committee on 20 March approved a virtually unchanged defense budget of approximately $28 million, Secretary Kangleon indicated that $10 to $15 million more will be requested to put the armed forces on a war footing. The General Staff has been instructed to submit a detailed report of the needs of the army together with an estimate of the funds required to cover these expenses for a period of one year. The army program is expected to be submitted promptly to President Roxas for approval. Meanwhile, plans have already been completed for a universal military training program with a goal of 12,000 trainees annually; twenty-year-olds are required to register in April and the first group of 3,000 are scheduled to begin training in June.

AUSTRALIA

Australian views on the international situation. Foreign Minister Evatt considers that the world is in a state of "drift toward war," which only renewed support of the UN can halt. In a speech before the recently formed Australian National Committee for the UN, he emphasized that all disputes could be settled by the application of facts and justice but none could be resolved by power politics.

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AUSTRALIA (continued)

On this premise he expressed his disapproval of the US decision to abandon the partition of Palestine. He felt that the partition plan had been formulated after full inquiry and fair debate by more than a two thirds majority of the UN and that setting it aside could only result in a further blow to UN authority. Similarly members of the Australian Government view the proposed return of Trieste to Italy as a move of "political expediency," taken without regard to the Italian peace treaty.

A definitive statement of official Australian policy is expected to be forthcoming in the Parliamentary debate on foreign affairs early in April.

NEW ZEALAND

Policy toward WFTU under consideration. The New Zealand Federation of Labor's position in regard to the World Federation of Trade Unions (WFTU) is currently under consideration in view of the possibility of a split between the Communist and non-Communist members of the latter body. Formally committed to preserving the unity of the WFTU, the NZ Federation of Labor is inwardly divided on the advisability of risking a break up by precipitating a stand on the Marshall Plan. The New Zealand Federation is strongly attached to the WFTU and would deeply regret to see an open split develop. On the other hand, majority opinion on the Federation's Executive Committee does not wish to see the WFTU become a tool of Soviet policy or a sounding board for Soviet propaganda. It is not clear what the Federation's policy would be in the event of a schism in the WFTU. It is possible that it would follow the lead of the British Trade Union Council, for which the New Zealand body has considerable respect. It would be extremely suspicious of any move organized by the American Federation of Labor, which New Zealand considers sacrificed any claim to lead international trade unionism by its consistent refusal to take part in the World Federation.

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